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Scottie Gold Mines Ltd.

1982

Annual Report

Report to Shareholders

SCOTTIE GOLD MINES LTD.

It is my great pleasure to present this shareholder's report as your Company's performance, particularly since year-end, has improved dramatically and its prospects for the future have never appeared brighter. After an erratic first year of operation, we can finally say with all certainty that a permanent turnaround at our Summit Lake gold complex has been achieved. Since November 1982 to the time of this writing, the mill has averaged 5,400 tons of ore per month and produced over 10,000 ozs. of gold. Management predicts that calendar year 1983 will see the production of over 50,000 ozs. of gold — more than double the output of fiscal 1982.

With the recent surge in precious metal prices and all indications pointing to even more bullish metal markets ahead, your company is assured of a very profitable 1983 and many more years of success to come.

The financial performance, which showed a \$2.2 million cash loss on sales of \$11,340,000, was severely hampered by low metal prices and oppressively high interest rates. In addition, the customary start-up bugs were exacerbated by a number of mechanical difficulties. I'm pleased to report that most of these problems have been remedied and production has improved substantially with the mill now consistently performing near its 200 ton per day capacity and recovering at better than 90% rates. (Recoveries will improve another 2-3% with the installation of a new drum filter, scheduled for mid February.) The improved cash flow from operations enabled your company to begin, in December, principal payments on the \$11 million capital loan from the Royal Bank.

In retrospect, 1982, though a difficult year, proved a useful one. Management reassessed all operational procedures and implemented modifications to improve efficiency. As a result, production has increased. Costs have been reduced. With the benefit of the past year's experience, all Scottie employees are better versed in their jobs and now comprise what we feel is a first-class production team.

Metal production for fiscal 1982 totalled 25,000 ozs. of gold from a total 49,000 tons of ore milled. Recoveries averaged 76.43%. Direct production costs per ton averaged \$209; costs per ounce of gold were \$404. The average price received for gold was \$450 per oz.

A limited diamond drilling program commenced in November, 1982 to test the upper extensions of the main zone above the 3,600 level and to help define the same zone below 3,600 for stope preparation. This program has been successful in extending the main zone and identifying additional structures with excellent values and potential for further tonnage. Dr. R.H. Seraphim, in his report dated January 3, 1983, calculates reserves as follows: "drill, drift and raise-indicated, broken in stopes and inferred to the 3,670 level, 126,366 tons of a diluted grade of 0.775 oz. gold." In his report he also states that the inferred potential to surface is estimated at 47,500 tons with an unstated grade. With the limited amount of drilling done to date, this 47,000 tons is expected to contain at least the average mine grade. Therefore, it is safe to assume that the reserves in all categories are 175,000 tons of 0.75 oz. gold plus minimal amounts of silver. The majority of these reserves are in the main zone only, with the "S" zone, the "N" zone and several additional zones yet to

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be fully tested. It would not be unduly optimistic to estimate that in the coming year these reserves can be doubled and that additional work in the future would extend the mine life by many more years.

Development work underground, which was deficient at the time of production start-up, was improved during the year as efforts focused on preparing a sufficient number of stopes and headings for mining to satisfy the increased production requirements of the mill. This has been accomplished.

In the area of environmental control, your Company can take pride in pioneering a new cyanide control process during 1982. With the successful introduction of the INCO cyanide destruction process in October, Scottie became the first mine in the western world to use the process on a day-to-day operational basis.

While reviewing the past year's highlights, I would be remiss in not mentioning those whose contributions, in very pressing circumstances, proved essential to Scottie's continued operation. Among those were the directors of Northair Mines, the Scottie mine staff and the members of the Tunnel and Rockworkers Union Local 168, who agreed to defer 8% of their 13% wage increase by eight months, to June 1983. Also, I'd like to acknowledge the co-operation of our debenture holders, who agreed to an extension of repayment to late 1984.

Of course, thanks also to you, our shareholders, for your support during the past year. We are confident that your support will be rewarded. With improved production and grades, significantly lower operating costs, higher gold prices and lower interest rates, the coming year will see most, or all, of our debt repaid. Then, should even the most conservative forecasts for gold markets prove correct, your Company will enjoy some substantial profits in the years ahead.

On behalf of the Board,

Donald A. McLeod,
President

January 20, 1983

Balance Sheet

Exhibit A

SCOTTIE GOLD MINES LTD. (Under the Company Act, British Columbia)

As at 30 September 1982
(With comparative figures
as at 30 September 1981)

	1982	1981
ASSETS		
CURRENT		
Cash and term deposits	\$ 114,589	\$ 254,915
Concentrate settlement receivable	963,868	—
Concentrate inventories	577,294	—
Supplies and sundry accounts receivable	44,278	111,808
Prepaid expenses and security bond	17,917	15,000
	1,717,946	381,723
MINERAL RIGHTS AND DEFERRED COSTS (Note 1)		
Mineral rights, at cost	\$ 191,137	
Deferred exploration and development costs	15,044,792	
	15,235,929	
Less — Accumulated depletion	3,894,303	15,014,413
	11,341,626	
PROPERTY, PLANT AND EQUIPMENT (Note 3)	8,973,480	10,542,152
CONSTRUCTION IN PROGRESS	130,220	254,344
	\$22,163,272	\$26,192,632
LIABILITIES		
CURRENT		
Bank loan (Note 4)	\$11,175,000	\$ 9,500,000
Accounts payable and accrued liabilities	4,876,970	3,655,593
Debentures (Note 5)	—	3,750,000
Current portion of rental purchase agreements	393,046	486,820
	16,445,016	17,392,413
LONG-TERM		
Debentures (Note 5)	3,750,000	—
Rental purchase agreements, net of current portion shown above	370,532	327,993
Advance from Northair Mines Ltd., including accrued interest (Note 6)	2,282,274	—
	6,402,806	327,993
SHAREHOLDERS' EQUITY (DEFICIENCY)		
SHARE CAPITAL (Note 7)	8,472,226	8,472,226
DEFICIT — Exhibit B	(9,156,776)	—
	(684,550)	8,472,226
	\$22,163,272	\$26,192,632

ON BEHALF OF THE BOARD:

Donald A. McLeod, Director

Alan G. Thompson, Director

See Attached Notes

Statement of Income (Loss) and Deficit

Exhibit B

SCOTTIE GOLD MINES LTD.

For the year ended
30 September 1982

PRODUCTION				\$11,339,904
OPERATING COSTS				
Direct				
Exploration	\$	157,411		
Mining and short-term development		4,729,182		
Milling		3,068,737		
Pollution control		616,583		
Depletion		3,894,303		
Depreciation		2,994,760	\$15,460,976	
Indirect				
Mine general and surface		954,865		
Administration		740,559	1,695,424	17,156,400
LOSS FROM OPERATIONS BEFORE				
INTEREST EXPENSE				5,816,496
INTEREST EXPENSE				3,340,280
LOSS FOR THE YEAR, BEING				
DEFICIT AS AT 30 SEPTEMBER 1982				\$ 9,156,776
LOSS PER SHARE				
Basic				\$2.88
Fully Diluted				\$2.22

See Attached Notes

Statement of Changes in Financial Position

Exhibit C

SCOTTIE GOLD MINES LTD.

For the year ended
30 September 1982

(With comparative figures
for the eight months
ended 30 September 1981)

	1982 (12 Months)	1981 (8 Months)
SOURCE OF FUNDS		
Treasury shares	\$ —	\$ 2,456,446
Less — Shares issued re bank loan	—	(78,500)
— Shares issued re mine development	—	(1,025,000)
	—	1,352,946
Advances from Northair Mines Ltd.	2,282,274	—
Debentures reclassified to non-current	3,750,000	—
	6,032,274	1,352,946
APPLICATION OF FUNDS		
To operations		
Loss for the year	\$9,156,776	
Less — Non-working capital outlays —		
Depreciation and depletion	<u>6,889,063</u>	2,267,713
		—
Plant and equipment (net of rental purchase agreements and transfers from construction in progress)	1,129,205	8,138,620
Deferred exploration and development costs —		
Costs capitalized in prior period net of non-working capital outlays	—	4,048,577
Transfer from construction in progress	221,516	—
Construction in progress	130,220	—
Debentures classified as current	—	3,750,000
	3,748,654	15,937,197
INCREASE (DECREASE) IN WORKING CAPITAL DEFICIT	(2,283,620)	14,584,251
Working capital deficit — Beginning of period	17,010,690	2,426,439
WORKING CAPITAL DEFICIT — 30 SEPTEMBER	\$14,727,070	\$17,010,690

See Attached Notes

SCOTTIE GOLD MINES LTD.

1. Significant Accounting Policies

(a) Concentrate Settlements Receivable and Concentrate Inventories

Concentrate settlements receivable and concentrate inventories are recorded at estimated net realizable value which is based on the most current information available with regards to weight, assays, metal prices and foreign exchange.

(b) Mineral Rights and Deferred Costs

Mineral rights and deferred costs are carried at cost less depletion recorded to date. They are not intended to reflect present or future values.

Depletion of these costs is being provided on a unit of production method based on estimated recoverable reserves.

(c) Depreciation

With the exception of mobile equipment, employee housing and land, depreciation of all plant and equipment is being provided on a unit of production method based on estimated recoverable reserves. Mobile equipment and employee housing are being depreciated at 30% and 5% respectively per annum on a reducing balance basis.

(d) Per Share Calculations

Basic loss per share —

Calculation based on total issued and outstanding Class A shares as at 30 September 1982

Fully diluted —

Calculation based on total issued and outstanding shares plus options, warrants and commitment outstanding on share capital.

2. Ore Reserves

For accounting purposes (Note 1b and c) the ore reserves have been calculated by using the reserves as at 31 December 1982 as per the report of R.H. Seraphim, Ph.D., P.Eng., plus the tonnage milled during the period from 1 October to 31 December 1982.

The reserves as at 31 December 1982 were:

	Tons
Drift and raise indicated	49,854
Drill indicated	33,099
Broken in stopes	7,633
Inferred	35,780
	<u>126,366</u>

3. Property, Plant and Equipment

	1982	1982	1981
	Cost	Accumulated Depreciation	Net Book Value
Mill machinery and equipment	\$ 7,350,212	\$1,878,714	\$5,471,498
Other machinery and equipment	3,535,010	1,280,169	2,254,841
Camp buildings	1,430,798	671,823	758,975
Employee housing	278,517	26,731	251,786
Townsite	121,852	31,145	90,707
Mobile equipment	134,621	71,662	62,959
Office furniture and fixtures	41,490	12,856	28,634
	<u>12,892,500</u>	<u>3,973,100</u>	<u>8,919,400</u>
Land	54,080	—	54,080
	<u>\$12,946,580</u>	<u>\$3,973,100</u>	<u>\$8,973,480</u>
			\$10,542,152

SCOTTIE GOLD MINES LTD.

4. Bank Loan

Bank	— The Royal Bank of Canada
Amount	— Maximum loan — \$11,250,000
Interest	— On the first \$10,250,000 — Prime plus 1% to 1 November 1982 and prime plus 2% thereafter On the next \$1,000,000 — Prime plus 2%
Terms	— On demand with provision for repayments based on feasibility study (see Note 5)
Bonus	— 20,000 Class A shares in consideration for the initial granting of the loan (issued) and 10,000 Class A shares as an additional bonus in consideration for certain revisions made to the terms of the loan in November 1982
Security	— A general assignment of book debts and inventory, a fixed and floating charge on the assets of the company evidenced by a debenture for \$11,250,000 and a guarantee and postponement of claim for \$1,000,000 signed by Northair Mines Ltd. In consideration for the guarantee Northair Mines Ltd. is entitled to receive 50,000 Class A treasury shares

5. Debentures

Interest	— Bank prime lending rate plus 2% payable quarterly
Terms	— Redemption date, originally set at 17 September 1982, now extended to 17 September 1984
Security	— A floating charge on all assets of the company, but subordinated to the bank loan (Note 3)
Bonus	— In consideration for revision to the original terms governing the debentures (approved by the debenture holders on 1 November 1982), the company has agreed to the following bonus: (a) 62,500 Class A treasury shares (b) Warrants to purchase 625,000 Class A treasury shares at \$3.00 per share exercisable on or before 18 September 1984

6. Financial Agreements

In addition to the bank loans (Note 3) the company arranged for financing with Northair Mines Ltd. to assist the company in the completion of its mill and provide working capital as follows:

(a) \$1,030,000 — Secured by a promissory note bearing interest at the bank prime rate plus 1%. Principal and interest are to be repaid in equal consecutive monthly installments of \$300,000 commencing on the first day of the month following the payout of \$11,250,000 of the bank loan (Note 3) and the debentures (Note 4). Northair Mines Ltd. shall be entitled to receive 50,000 Class A treasury shares if the loan is not repaid within two years. Should the loan be repaid in less than two years, the 50,000 shares shall be in proportion that such lesser time is to two years.

(b) \$1,000,000 — Interest at the bank prime rate plus 2%, evidenced by a single demand debenture, subordinated to bank loans (Note 3) and debentures (Note 4), payable on demand at any time after the bank loans and debentures are paid in full.

An option was granted to the lender to convert \$300,000 to Class A treasury shares at \$3.00 per share exercisable any time prior to repayment of the loan. In addition, the lender is granted a bonus of 25,000 Class A shares. (Bonus and convertibility option are subject to the approval of the governing regulatory bodies.)

SCOTTIE GOLD MINES LTD.

7. Share Capital

(a) 21,000 Class A shares and 605,000 Class B shares are held in escrow and are not to be released without the consent of the governing regulatory bodies. During the time that the Class B shares are held in escrow they shall not be entitled to dividends or to share in the distribution of assets upon the winding up of the company beyond the amount paid up on such shares.

(b) Options, warrants and commitment outstanding

Options	— Mine manager — Up to 30 November 1985 at prices from \$3.50 to \$4.50 per share for a total of	22,000 shares
	Northair Mines Ltd. to convert \$300,000 (Note 6) at \$3.00 per share	100,000 shares
Warrants	— Re debenture (Note 5) at \$3.00 per share	625,000 shares
Commitment	— Bank loan (Note 4)	10,000 shares
	Debentures (Note 5)	62,500 shares
	Northair Mines Ltd. re financial agreement (Note 6), guarantee (Note 4) and bonus	125,000 shares
		<u>944,500 shares</u>

(c) Details of the share capital are as follows:

Authorized — 5,000,000 Class A shares of no par value

— 605,000 Class B shares of no par value

Issued and fully paid as at 30 September 1982 and 1981 —

3,175,230 Class A shares	\$8,466,176
605,000 Class B shares	6,050
	<u>\$8,472,226</u>

8. Statutory Information

During the year ended 30 September 1982 the direct aggregate remuneration paid or payable to the officers and directors of the company, as defined in the Company Act, British Columbia, was \$264,142 (\$149,908 for the period ended 30 September 1981). All of the above defined directors and officers are mine personnel.

Auditors' Report

To the Shareholders of
Scottie Gold Mines Ltd.

We have examined the balance sheet of Scottie Gold Mines Ltd. as at 30 September 1982 and the statements of income (loss) and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at 30 September 1982 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

20 January 1983

Smith, Flynn, Staley
Chartered Accountants

Corporate Information

SCOTTIE GOLD MINES LTD.

Directors & Officers

D.A. McLeod, President & Director
V.B. Humphrey, Director
J.B. Magee, Director
R.F. Sheldon, Director
A.G. Thompson, Director
M. Syniuk, Secretary

Head Office

#1450 - 625 Howe Street
Vancouver, B.C.
V6C 2T6

Operations Office

Box 308
Stewart, B.C.
V0T 1W0

Operations Personnel

H. Skoglund, Mine Manager
J. Wadsworth, Mill Superintendent
R. Eckess, Mine Accountant
A. Boon, Chief Engineer

Solicitors

Boughton & Co.
16th Floor, 1100 Melville St.
Vancouver, B.C.

Records Office

16th Floor, 1100 Melville St.
Vancouver, B.C.

Auditors

Smith, Flynn, Staley
Chartered Accountants
#225 - 4299 Canada Way
Burnaby, B.C.

Bankers

The Royal Bank of Canada
Main Branch — Royal Centre
1025 W. Georgia Street
Vancouver, B.C.

Share Listings

Vancouver Stock Exchange (SDL)
609 Granville St.
Vancouver, B.C.
NASDAQ, INC. (SCOTF)
(National-Over-The-Counter-List)
#1325 - 17 Battery Place
New York, N.Y., U.S.A. 10004

Transfer Agent

The Canada Trust Co. Limited
1055 Dunsmuir St.
Vancouver, B.C.

